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Building through uncertainty

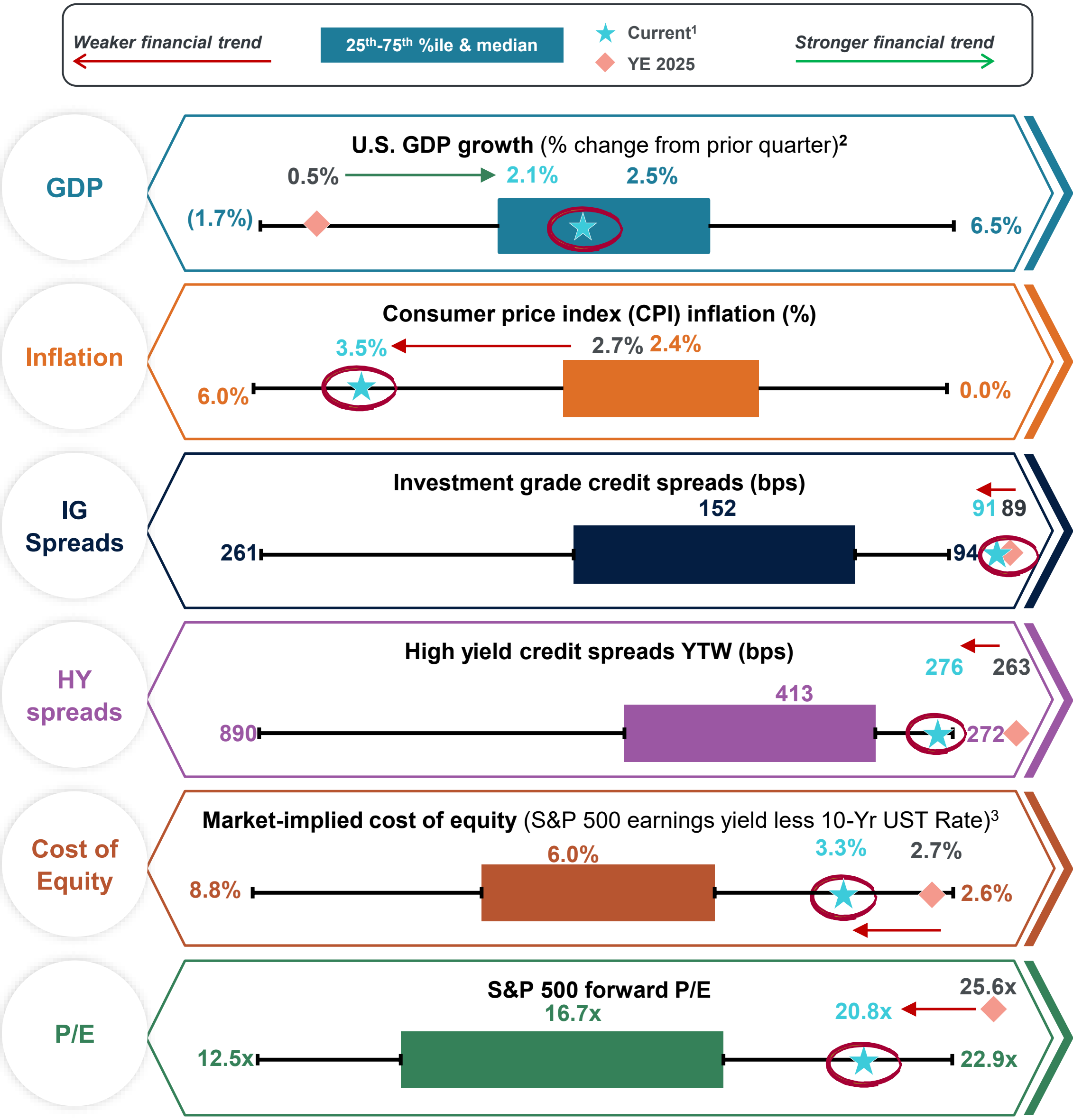
Navigating growth, capital and strategic flexibility at mid-year | July 2026

Corporate Advisory | Corporate Finance Advisory

Executive summary

- At the halfway mark of 2026, the main surprise is how much markets have absorbed, from geopolitical shocks to commodity volatility and a choppy macro backdrop
- That resilience gives companies room to act, but it should not be read as proof that risk has faded
- AI continues to anchor the growth conversation, and the focus is shifting from how much companies are investing to what returns those investments can produce
- Investors are still willing to reward growth, especially when management teams can show how today's capital deployment becomes tomorrow's earnings power
- With capital markets receptive, leaders have a window to fund growth before conditions become less favorable
- Larger capital needs are broadening the funding playbook and increasing the value of balance sheet flexibility
- Policy risk can no longer sit in the background, particularly where regulation, permitting, energy demand and election-cycle uncertainty may affect execution

Despite economic trends, capital markets remain strong



Geopolitical volatility continues to play an outsized role in shaping the trajectory of economic growth

Fed leadership appears to be highly focused on getting inflation under control, which will likely lead to higher-for-longer rates

Corporate balance sheets remain robust and "early-cycle" growth is reducing default risk perceptions

Credit spreads remain near historic tights despite elevated supply

The S&P 500 earnings yield reflects the market digesting elevated valuations against a mid 4's 10Y Treasury yield

Market disruption (i.e., "Saas-pocalypse") and geopolitics stymied some optimism, but forward multiples remain at historic highs

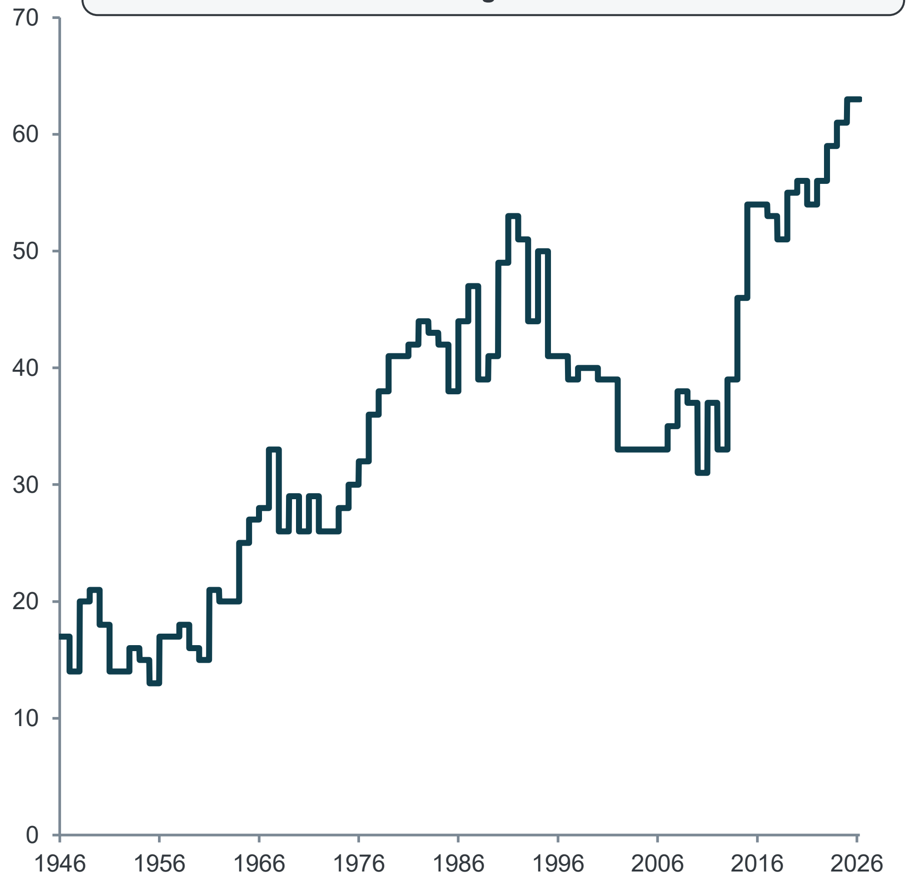
Source: Bureau of Economic Analysis, FactSet, Morgan Markets

Notes: [1] Latest available data for each metric as of July 17, 2026; [2] Latest print as of June 30 (Q1 2026); [3] Includes a 3% perpetuity growth rate

Capital markets have shrugged off elevated geopolitical risk

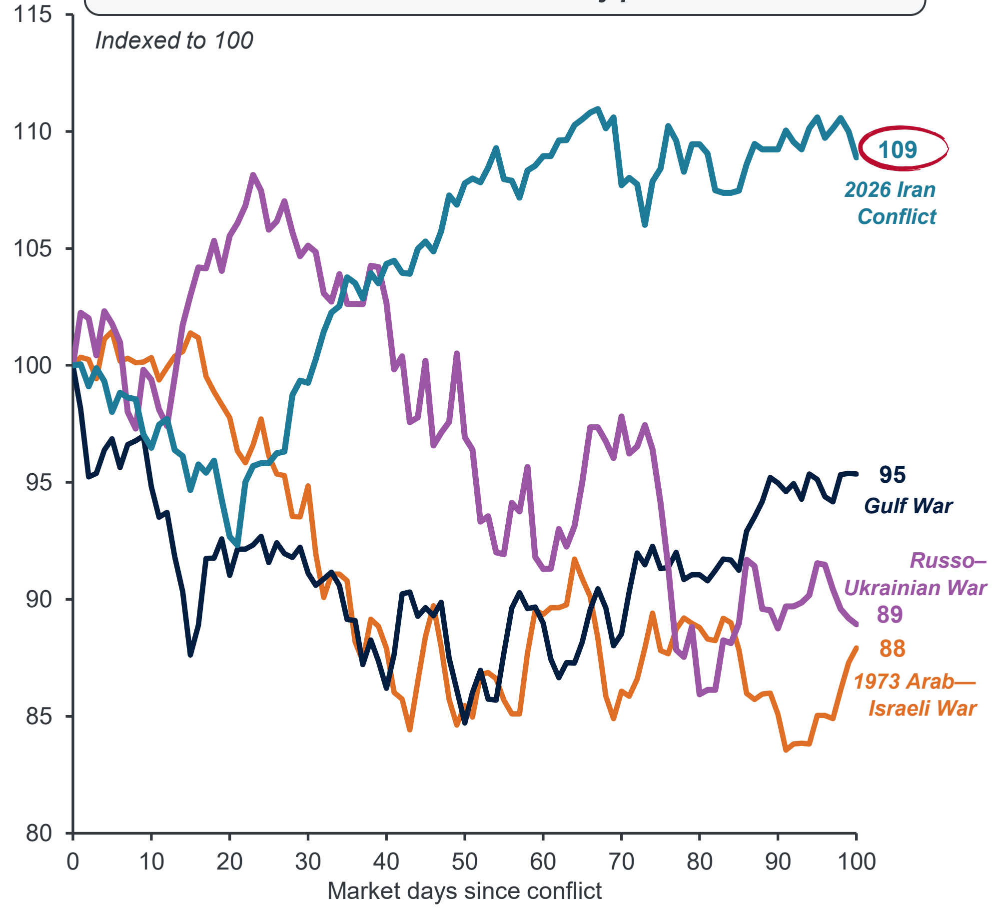
NUMBER OF STATE-BASED CONFLICTS AT HISTORICAL HIGH[1]

Global conflicts have continued to increase to post-WWII highs



S&P 500 REMAINS RESILIENT POST IRAN-CONFLICT ONSET[2]

Today's capital markets have even been resilient to a conflict that has caused a commodity price shock

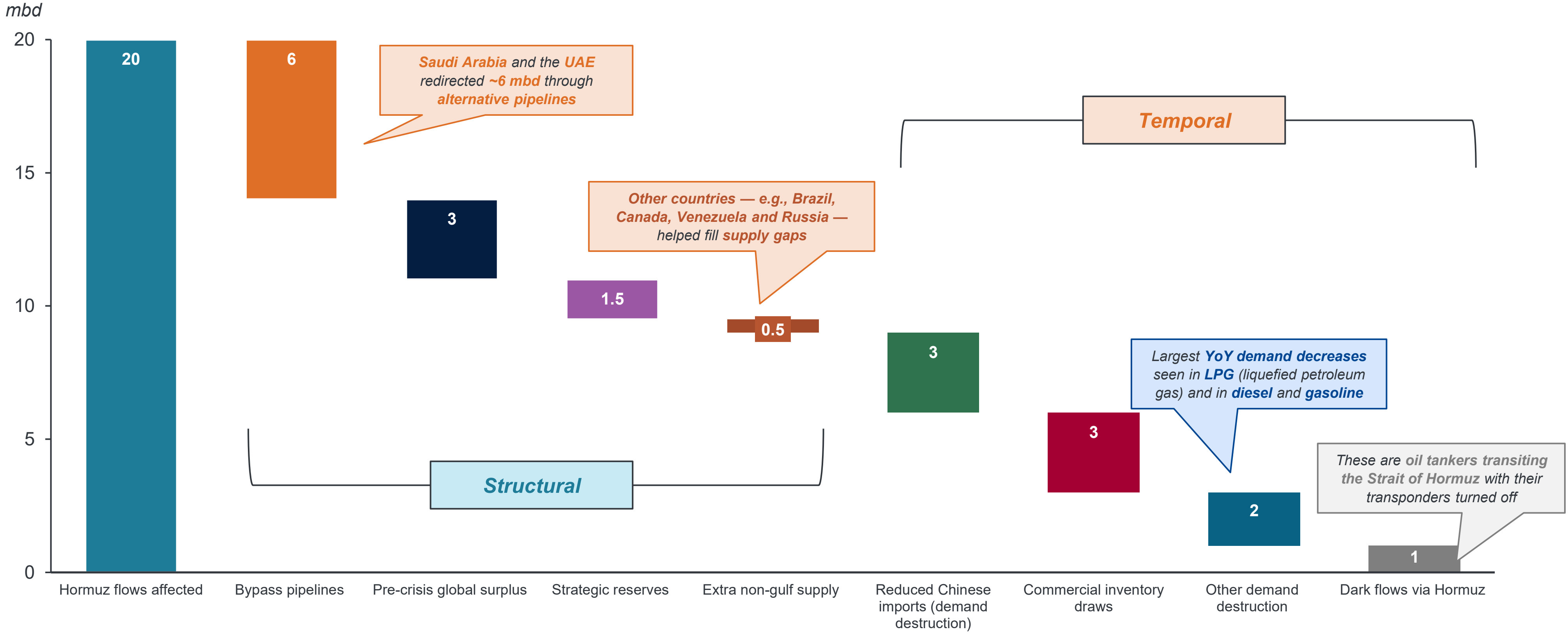


Capital markets have absorbed the first-order shock, but companies should still plan for second-order effects across energy, logistics, working capital, insurance, liquidity and customer demand

Source: [1] UCDP/PRIO Armed Conflict dataset; [2] FactSet as of 07/17/2026, Equity returns are total returns | Note: [1] Data exists through 2024. 2025 and 2026 values are estimated based on public disclosure (The Economist, Center for Strategic & International Studies, Congressional Research Service, Belfer Center).

Supply and demand flexibility helped contain the shock, but second-order effects remain

DIMINISHED OIL SUPPLY HAS BEEN OFFSET BY MULTIPLE FACTORS, SUCH AS TRADE RE-ROUTING AND SHIFTS IN CONSUMPTION[1]



Second-order effects from the Iran shock

131%
increase in spot rates for container transport market since conflict[2]

11%
increase in U.S. oil rig count since conflict[3]

24%
June YoY EV sales increase in Europe[4]

16%
reduction in gasoline spending among low-income Americans YoY[5]

Alternative routes, inventories, reserves and demand shifts helped offset disrupted oil flows, supporting broader market resilience. Companies should consider whether their own supply chains, liquidity plans and pricing models have comparable flexibility

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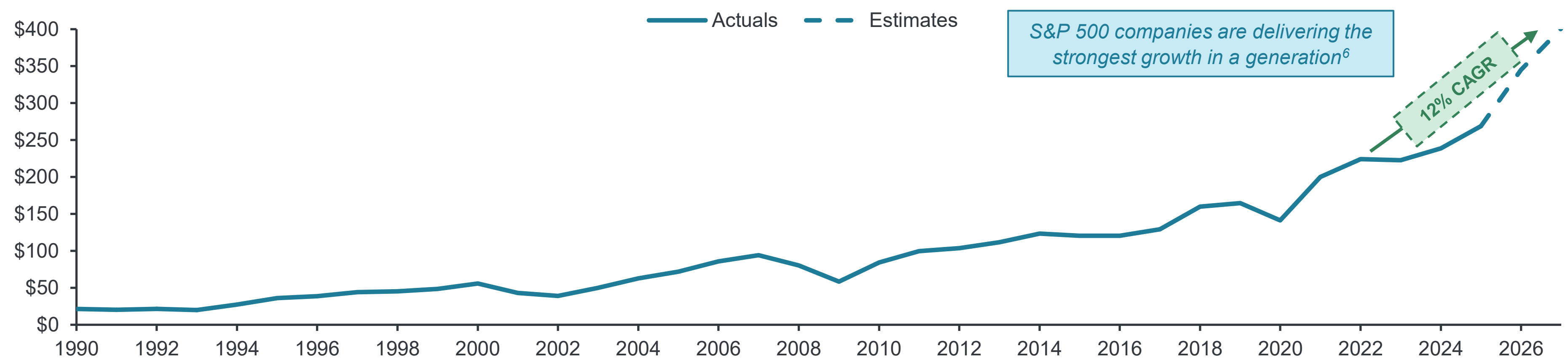
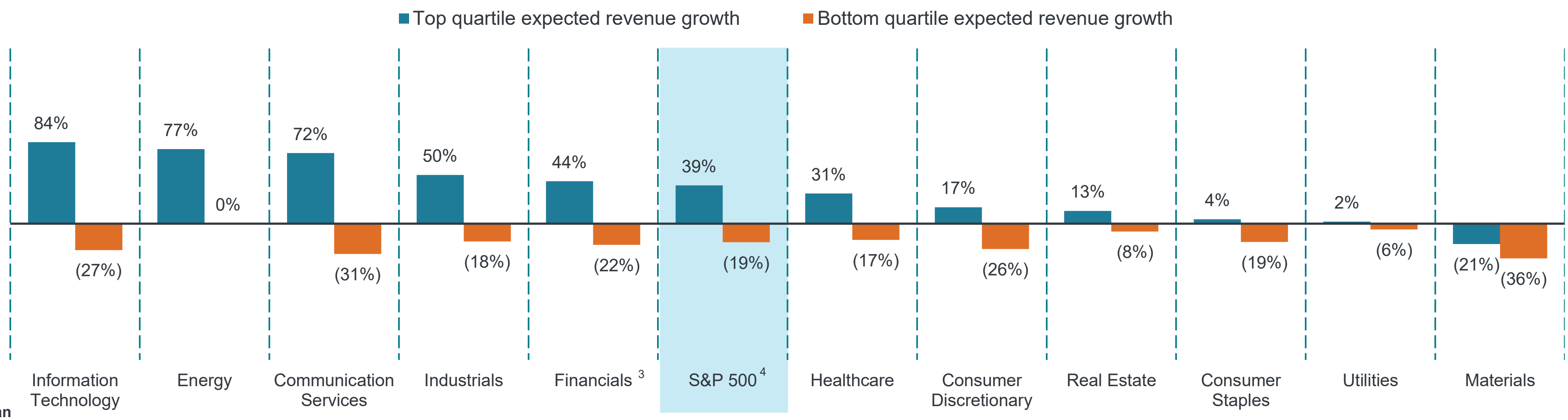
Source: [1] Bloomberg Intelligence *Peak Hormuz: 2026-2030 Outlook;* Rough estimates based on reported Hormuz flow disruptions, bypass pipeline capacity, disaggregated surplus, estimated demand destruction and strategic inventory releases. Residual imbalance shown as implied inventory drawdown needed to rebalance the market. Figures are illustrative and not intended as precise market balances; [2] Shanghai Containerized Freight index, conflict date as of 2/27/2026; [3] Baker Hughes rig count; [4] BloombergNEF; [5] Federal Reserve Bank of New York, Economic Research Consumer Spending, YoY decrease in real terms for those making less than $40k

Markets are rewarding growth, raising the bar for capital allocation

S&P 500 EARNINGS PER SHARE[1]



CURRENT PREMIUM / (DISCOUNT) TO THE S&P 500 SECTOR EV / NTM EBITDA MEDIAN MULTIPLE FOR FIRMS WITH DIFFERENT REVENUE GROWTH LEVELS[2]



	Information Technology	Energy	Communication Services	Industrials	Financials[3]	S&P 500[4]	Healthcare	Consumer Discretionary	Real Estate	Consumer Staples	Utilities	Materials
Median capex / OCF[5]	**13%**	**69%**	**30%**	**23%**	**4%**	**25%**	**24%**	**27%**	**29%**	**25%**	**180%**	**74%**

The growth premium is available, but only to companies that can connect investment, execution and earnings with credibility

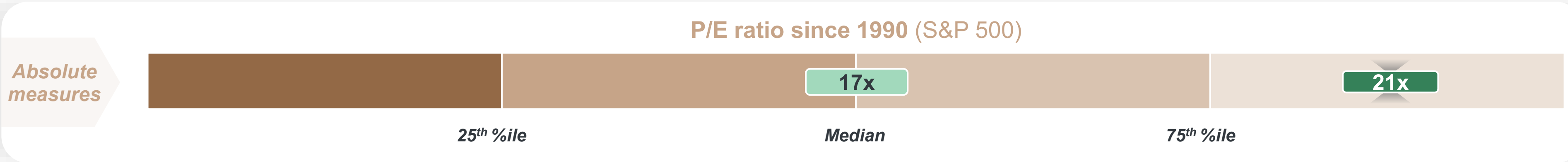
Source: FactSet as of 7/17/2026; [1] EPS for the S&P 500; estimates shown for 2026–2027; CAGR for 2022-2027; [2] Consensus estimates for revenue growth as of 7/17/2026, Growth measured as 2-yr forecasted revenue growth CAGR; [3] Excludes regulated banks; [4] Excludes Financials; [5] Based on reported Q1 2026 data; [6] Second highest growth to only the mid / late 1990's when excluding trough environments

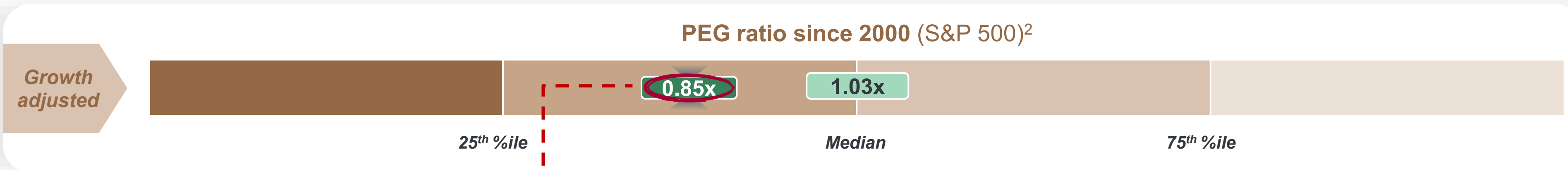
Growth-adjusted valuations help explain market resilience

Lower valuation vs. history

Higher valuation vs. history

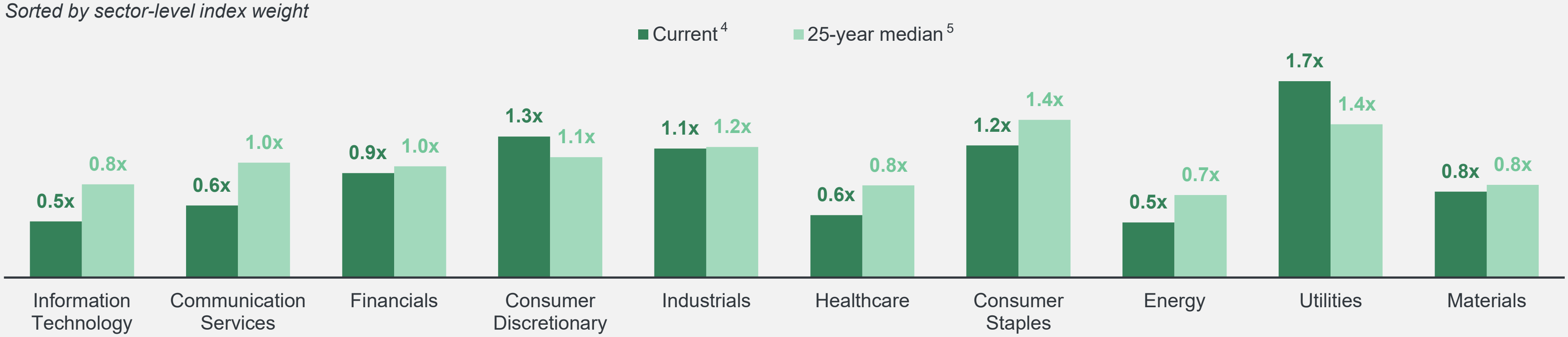
Historical median Current[1]





S&P 500 PEG RATIOS BY GICS SECTOR[3]

Sorted by sector-level index weight



CURRENT INDEX WEIGHT BY MARKET CAP[4]

Information Technology	Communication Services	Financials	Consumer Discretionary	Industrials	Healthcare	Consumer Staples	Energy	Utilities	Materials
33%	16%	12%	9%	8%	8%	5%	3%	2%	2%

Valuations may be more defensible when adjusted for growth, but that makes execution, margin conversion and earnings delivery even more important

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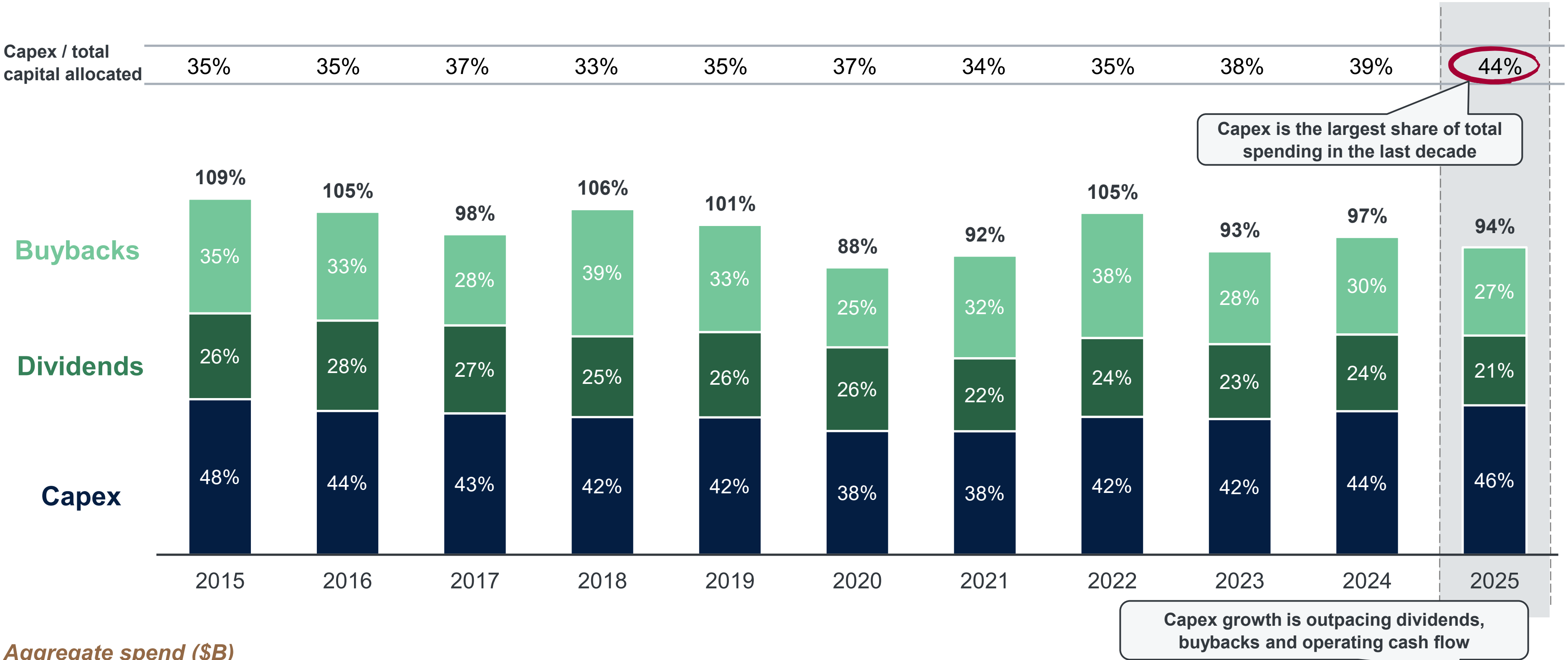
Sources: FactSet, St. Louis Fed, as of 7/17/2026; Note: [1] As of 7/17/2026; [2] Excludes Real Estate, Growth rate defined as 2-year forward EPS growth; [3] Growth rate defined as 2-year forward EPS growth, Index constituents as of 12/31 of each respective year for all S&P 500 firms excluding Real Estate; [4] As of 7/17/2026; [5] Median from 12/31/2000 to 12/31/2025, medians as of each quarter-end

The market's growth mandate is showing up in capital allocation

MEDIAN S&P 500 CAPITAL ALLOCATED AS A % OF OPERATING CASH FLOW[1]



Aggregate spend ($B)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	YoY change[2]
Capex	$656	$601	$620	$694	$713	$655	$778	$890	$922	$1,034	$1,252	+21%
M&A	$373	$307	$279	$387	$313	$252	$389	$356	$349	$338	$296	(12%)
Dividends	$362	$378	$386	$407	$442	$442	$459	$508	$508	$552	$585	+6%
Buybacks	$483	$455	$400	$641	$556	$423	$647	$806	$631	$702	$740	+5%
OCF	$1,375	$1,363	$1,431	$1,642	$1,691	$1,725	$2,054	$2,103	$2,214	$2,347	$2,734	+5%

The question for leaders is no longer whether to invest, but whether investment plans are sufficiently prioritized, funded and tied to measurable earnings power

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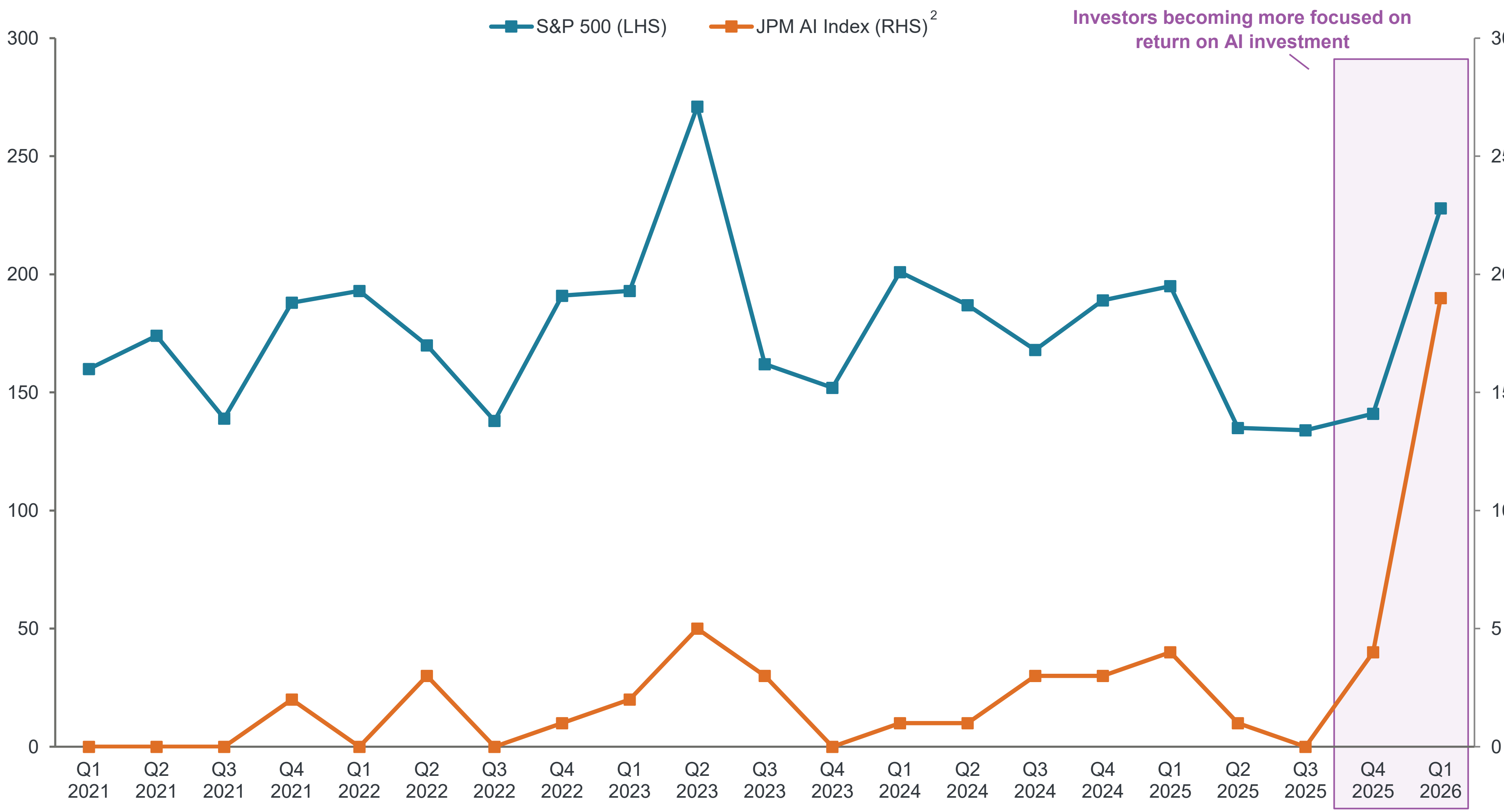
Source: FactSet; Data as of Q4 2025 (most recent earnings for firms that have reported within 45 days of the calendar quarter ending 12/31/2025). Excludes Financials, Members as of 12/31 of a given year end; Note: heatmap colored by row; [1] Excludes firms with negative OCF; [2] Increase percentage in the aggregate dollar amount in 2025 vs 2024

Investment discipline is coming into focus as investors articulate increased interest in tangible returns

RETURN ON INVESTED CAPITAL (ROIC) MENTIONS ACROSS INDICES[1]



Firms with the greatest growth potential are generally the same ones more closely orienting themselves toward returns and profitability

Source: Factset, Data as of 7/17/2026; Note: [1] mentions in earnings call transcripts; [2] J.P. Morgan AI TMT Basket, the JPM AI index consists of 27 companies within the tech, media, and telecommunications sectors classified as AI companies

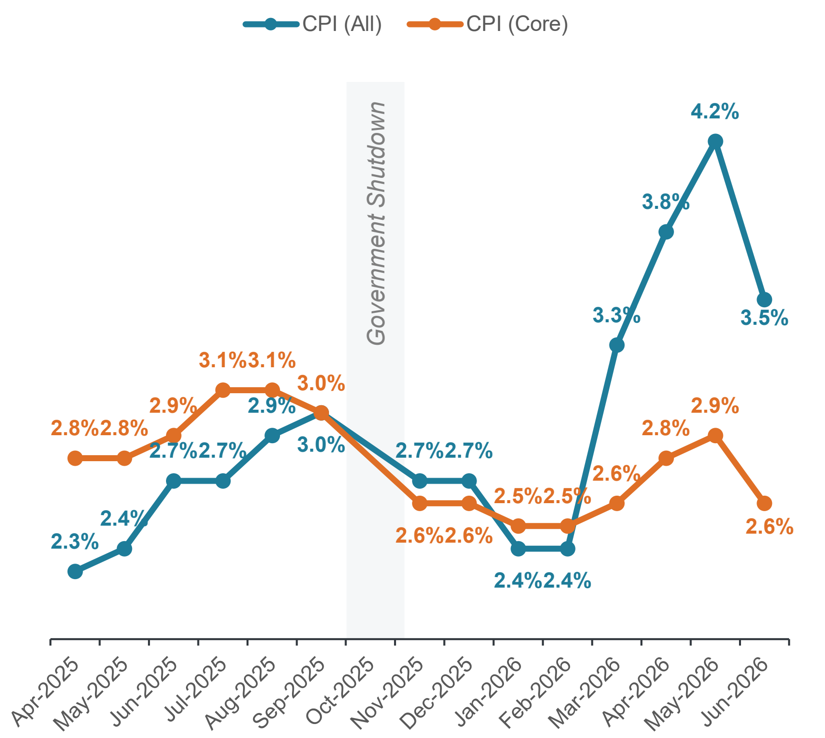
Higher-for-longer rates increase the burden of proof for growth investment

Unemployment | **Steady**: ~4.3% for 12+ months

GDP Growth | **Slower**: 2.0% as of last read

Inflation | **Heating up**: 3.5%

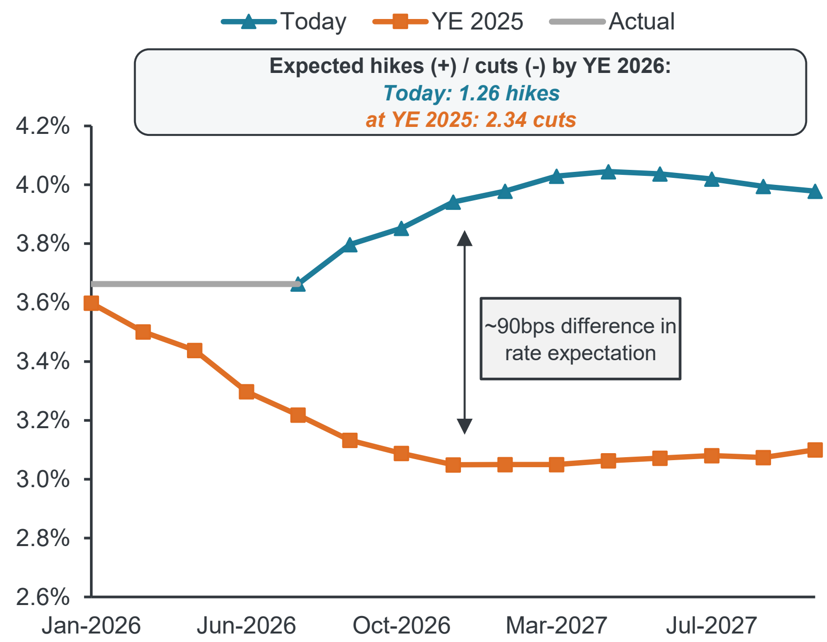
U.S. CONSUMER PRICE INDEX (% CHANGE)



EARLY SIGNS FROM CHAIRMAN WARSH'S 1ST MEETING

- **Tackling inflation and enabling "price stability" appears to be highest near-term priority**
- **Fed governors appear largely aligned on longer-term rate expectations, which suggest higher-for-longer rates with a potential increase before YE2026**

SHIFTS IN YE 2026 RATE EXPECTATIONS



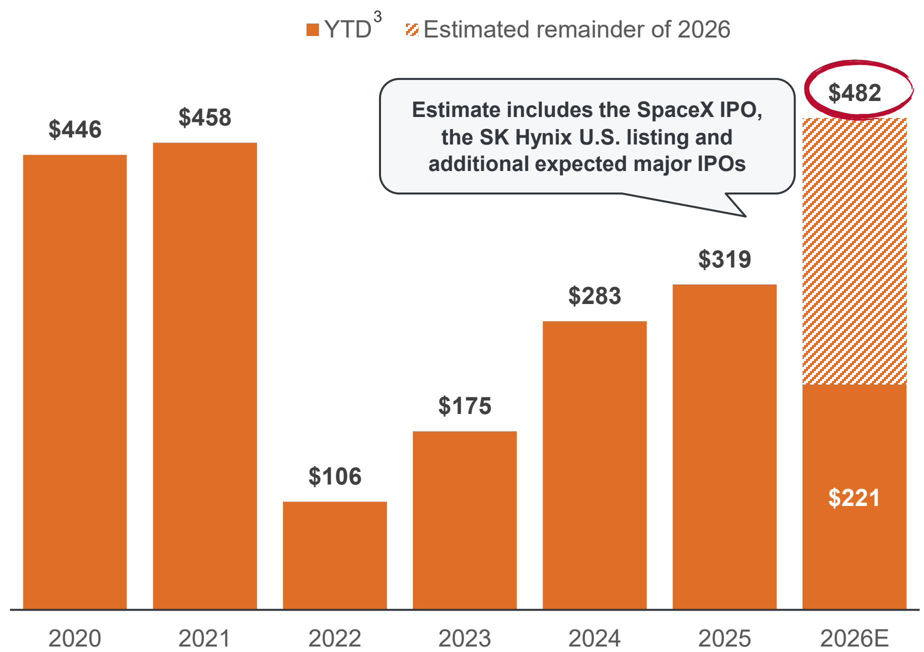
Unlike prior technology cycles that helped lower goods prices, the AI buildout may add inflation pressure through energy, infrastructure, labor and supply chain demand

Source: Bureau of Economic Analysis, Department of Labor, FactSet, Federal Reserve Board, Bloomberg

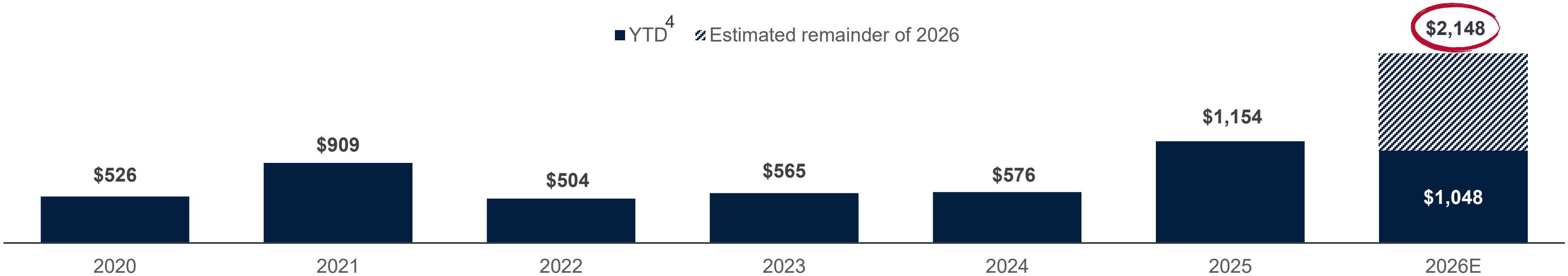
Companies are using market access to enhance flexibility

U.S. HIGH GRADE CORPORATE ISSUANCE ($B)

U.S. EQUITY CAPITAL MARKETS ISSUANCE ($B)[2]



NORTH AMERICA M&A MEGA-DEALS ($10B+, ANNOUNCED) ($B)



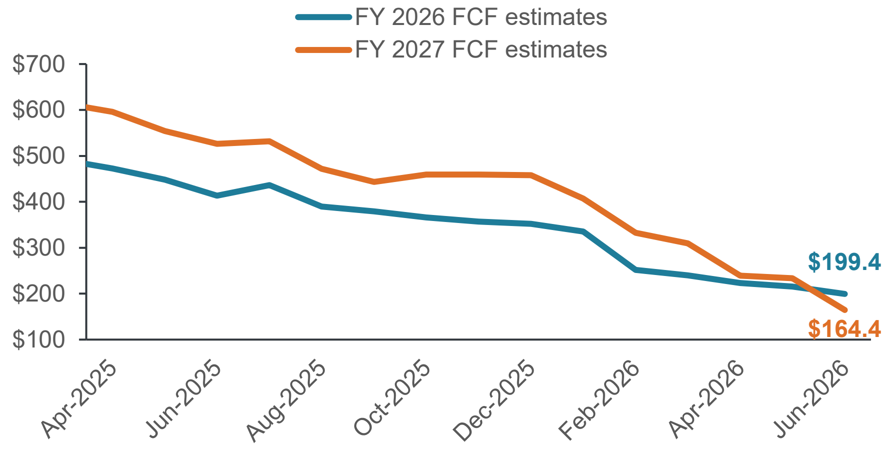
Market access remains available, but conditions can change quickly. Decision-makers should consider acting while markets are open to fund growth, enhance flexibility and preserve strategic options

Source: Dealogic, FactSet; [1] Year to date as of 7/10/2026; [2] U.S., SEC-registered deals over $50mm only; [3] YTD as of 7/15/2026; [4] YTD as of 7/16/2026, Total 2026 value is estimated by taking the average monthly value from January to June, annualizing it (multiplying by 12), and adjusting for the year-to-date (YTD) difference

Large capital needs are expanding the corporate funding playbook

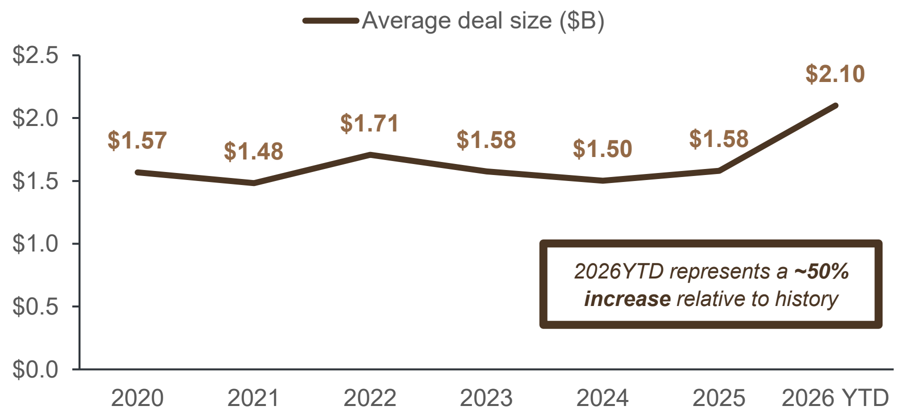
AI INFRA SPEND IS PRESSURING EXPECTED FREE CASH FLOW

Hyperscaler consensus FCF expectations (Agg., $B)



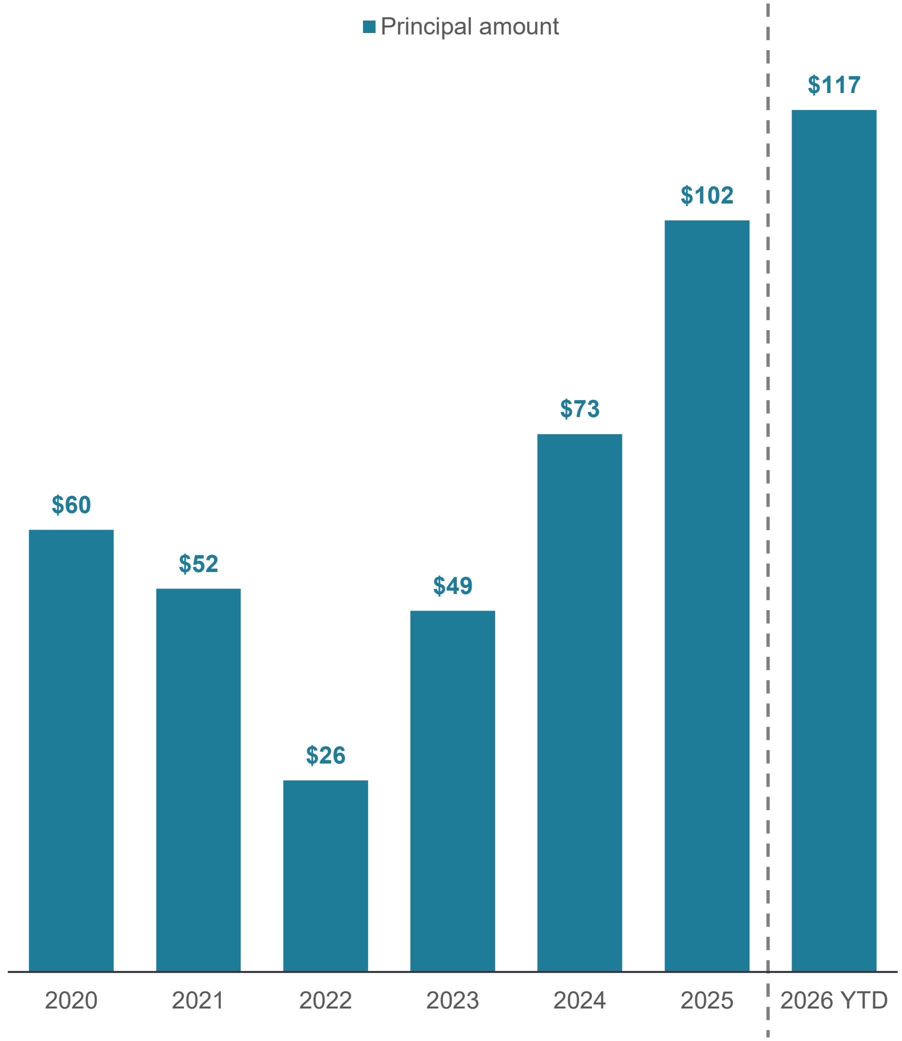
LARGER FUNDING NEEDS ARE TRANSLATING INTO LARGER DEBT TRANSACTIONS

Average U.S. debt capital market deal size ($B)



GLOBAL CAPITAL POOLS REMAIN AN IMPORTANT SOURCE OF FUNDING FLEXIBILITY

Debt issued by U.S. non-financial companies outside the U.S. ($B)



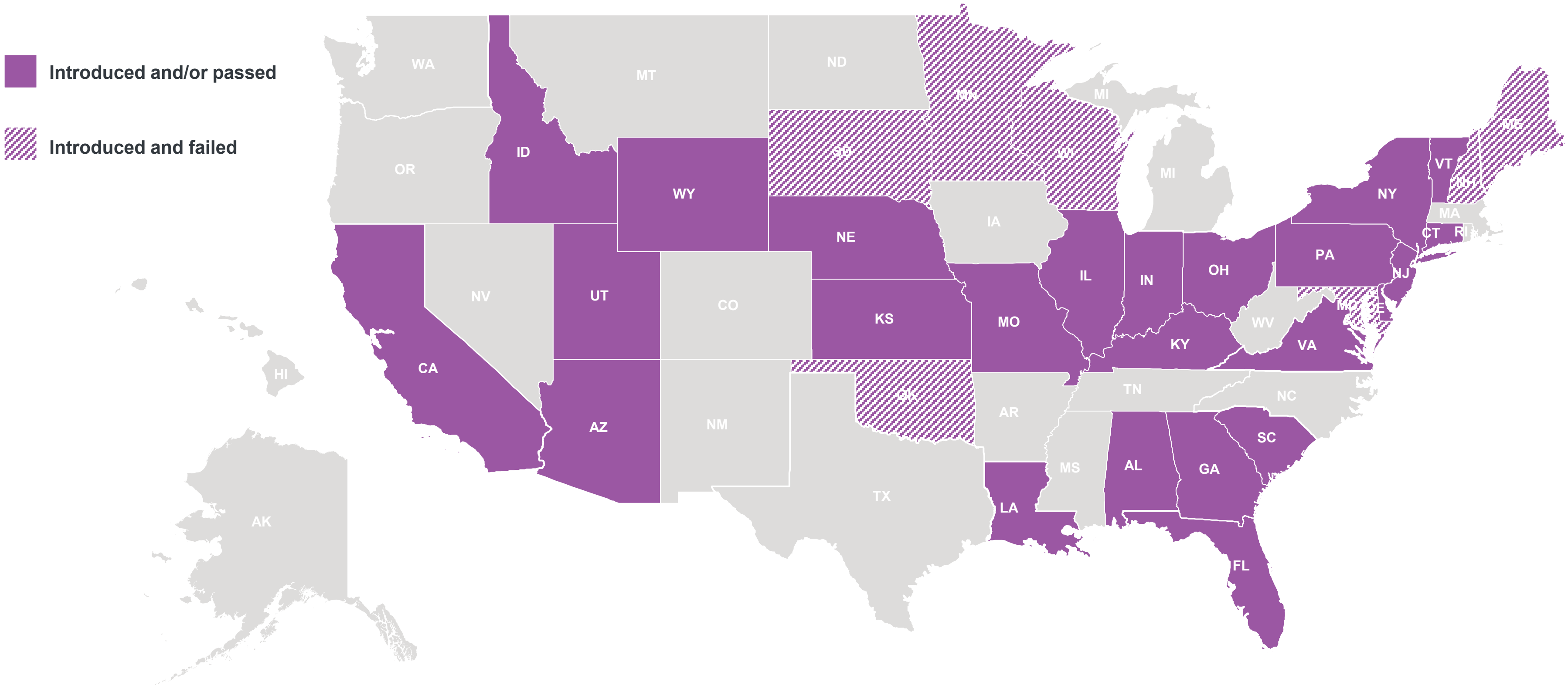
As investment needs grow, companies are broadening funding sources to preserve flexibility

Sources: FactSet; Bloomberg News; Hyperscalers include Amazon, Microsoft, Alphabet, Meta, Oracle, Apple, Alibaba, Tencent and Baidu

AI infrastructure is becoming a local policy challenge

STATES WHERE DATA CENTER LEGISLATION OR MORATORIUMS HAVE BEEN INTRODUCED, PASSED OR FAILED IN 2026 YTD[1]

More than half of U.S. state legislatures have introduced bills restricting or pausing data center development in 2026



- Polling suggests that 57% of Americans are opposed to hosting data centers in their communities
- Nearly every state legislature seat and 39 governors' offices are up for re-election in 2026
- Expect that voter concerns about AI data centers will shape state and local policy agendas throughout elections and in the years that follow

The pace of the AI buildout may increasingly depend on the ability to align capital, power, permitting and community support

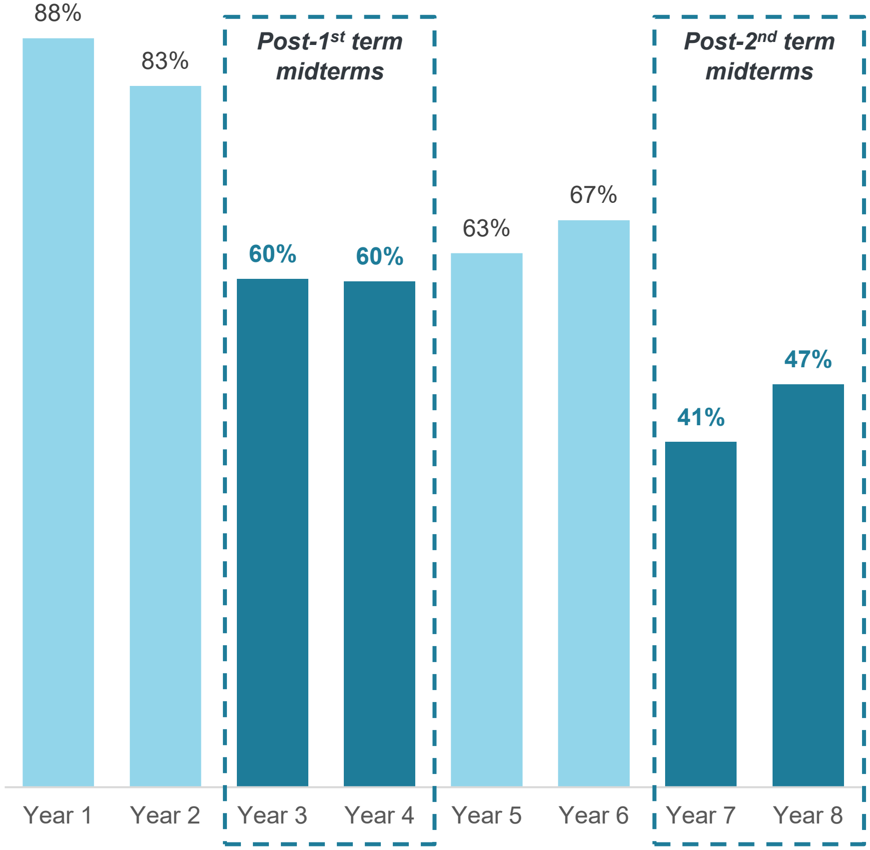
Source: Multistate; National Conference of State Legislatures; National Governors Association, Cook Political Report; Reuters; [1] As of 7/17/2026

Policy durability may decline after the midterms

LEGISLATIVE PASSIVE RATES TEND TO FALL AFTER MIDTERMS

% of President's proposed bills passed by Congress since 1980 (avg. by year of presidency)

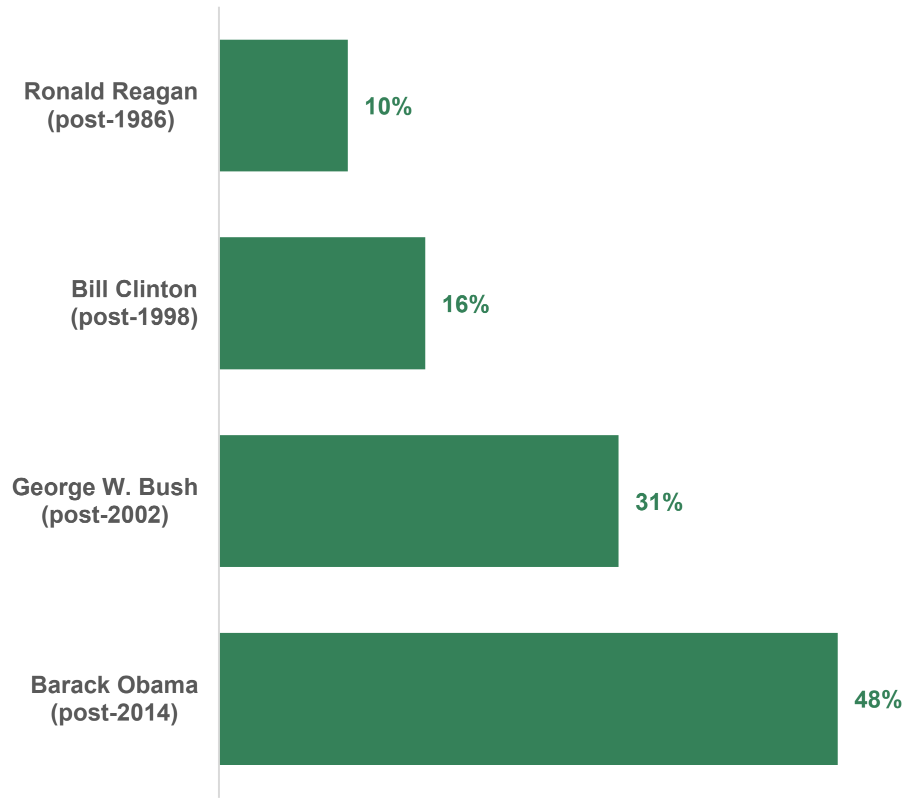
*Congress typically **passes a lower share of the President's proposed bills** following midterms*



PRESIDENTS HAVE LEANED MORE ON EXECUTIVE ORDERS AFTER SECOND-TERM MIDTERMS

% Increase in Executive Orders following 2nd term Presidents' midterms

*2nd term Presidents have steadily **increased their use of Executive Orders after midterm elections**, relying on a less durable policy tool to enact priorities*



For companies, the risk is not just policy change, but policy that is faster to enact, easier to challenge and harder to underwrite

Source: Brookings Institute Vital Statistics (Apr 2026), includes Reagan, Bush Sr, Clinton, Bush Jr, Obama, Trump I and Biden administrations; Multistate; National Conference of State Legislatures; National Governors Association, Cook Political Report; Reuters

Looking ahead

Demand measurable returns from growth investment

- AI and other strategic investments should be tied to **business outcomes, execution milestones and a credible path to earnings growth**

Act now to preserve optionality

- With capital markets receptive, organizations have a strategic window to **access capital to support future growth**

Clarify the capital allocation story

- Management teams should articulate a **clear, disciplined capital allocation strategy** that demonstrates long-term value creation and earnings durability

Treat policy risk as a strategic planning input

- Policy and regulatory shifts are becoming more frequent and impactful and evaluating the impact of these shifts enables organizations to **adapt more effectively and safeguard value**

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